

CITY OF AURELIA
INDEPENDENT AUDITOR'S REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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CITY OF AURELIA
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Bowen	Mayor	January, 2010
Chris Ballantyne	Council Member	January, 2010
Dar Evans	Council Member	January, 2010
Kendall Henkel	Council Member	January, 2010
Dee Keith	Council Member	January, 2012
Charles Lindgren	Council Member	January, 2012
Barb Messerole	Clerk/Administrator	Indefinite
Lori Kolpin	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Aurelia, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Aurelia, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

The financial statements referred to above include only the primary government of City of Aurelia, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America requires to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of City of Aurelia, Iowa, as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of

Aurelia, as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2010 on our consideration of City of Aurelia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 17 through 18 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

City of Aurelia, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 15, 2010

Hungelman, Pitzler & Co.

CITY OF AURELIA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit A

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Functions/Programs:						
Governmental Activities						
Public safety	\$ 87,292	\$ 5,086	\$ 420	\$ (81,786)	\$ -	\$ (81,786)
Public works	110,928	-	88,114	(22,814)	-	(22,814)
Culture and recreation	162,989	31,201	37,913	(93,875)	-	(93,875)
Community and economic development	29,742	-	-	(29,742)	-	(29,742)
General government	54,578	-	-	(54,578)	-	(54,578)
Debt service	65,763	-	-	(65,763)	-	(65,763)
Capital Projects	1,893	-	33,477	31,584	-	31,584
Total governmental activities	513,185	36,287	159,924	(316,974)	-	(316,974)
Business type activities						
Water	100,729	122,822	-	-	22,093	22,093
Sewer	112,106	107,881	-	-	(4,225)	(4,225)
Sanitation	71,089	71,458	-	-	369	369
Storm sewer	6,501	7,610	-	-	1,109	1,109
Total business type activities	290,425	309,771	-	-	19,346	19,346
Total	\$ 803,610	\$ 346,058	\$ 159,924	(316,974)	19,346	(297,628)
General Receipts:						
Property tax levied for:						
General purposes				157,450	-	157,450
Employee benefits				35,947	-	35,947
Debt service				41,307	-	41,307
Local option sales tax				84,742	-	84,742
Special assessments				1,096	-	1,096
Unrestricted interest on investments				10,099	19,558	29,657
Insurance dividend				9,216	-	9,216
Rent				1,495	-	1,495
Electric utility contribution				10,000	-	10,000
Miscellaneous				5,595	-	5,595
Transfers				247,210	(247,210)	-
Total general receipts and transfers				604,157	(227,652)	376,505
Change in cash basis net assets				287,183	(208,306)	78,877
Cash basis net assets beginning of year				272,789	784,951	1,057,740
Cash basis net assets end of year				\$ 559,972	\$ 576,645	\$ 1,136,617

(Continued)

CITY OF AURELIA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit A
(Continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
	<u>Disbursements</u>	Charges for <u>Service</u>	Operating Grants, Contributions, and Restricted <u>Interest</u>	Governmental <u>Activities</u>	Business Type <u>Activities</u>
Cash Basis Net Assets					
Restricted:					
Streets				\$ 69,284	\$ -
Debt service				14,584	89,505
Capital Projects				40,992	-
Local option sales tax				125,955	-
Employee benefits				60,570	-
Other purposes				44,467	-
Unrestricted				204,120	487,140
Total cash basis net assets				<u>\$ 559,972</u>	<u>\$ 576,645</u>
					<u>\$ 1,136,617</u>

See notes to financial statements.

CITY OF AURELIA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B

	Special Revenue						
	<u>General</u>	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Receipts:							
Property tax	\$ 156,487	\$ -	\$ 35,726	\$ -	\$ 41,053	\$ -	\$ 233,266
Other city tax	963	-	221	84,742	254	-	86,180
Licenses and permits	1,630	-	-	-	-	-	1,630
Use of money and property	42,789	-	-	-	-	2,228	45,017
Intergovernmental	20,905	88,114	-	-	-	-	109,019
Charges for service	7,122	-	-	-	-	-	7,122
Special assessments	1,096	-	-	-	-	-	1,096
Miscellaneous	9,981	-	-	-	-	59,847	69,828
Total receipts	<u>240,973</u>	<u>88,114</u>	<u>35,947</u>	<u>84,742</u>	<u>41,307</u>	<u>62,075</u>	<u>553,158</u>
Disbursements:							
Operating:							
Public safety	72,165	-	14,803	-	-	324	87,292
Public works	25,731	82,026	3,171	-	-	-	110,928
Culture and recreation	151,389	-	8,807	-	-	2,793	162,989
Community and economic development	9,751	-	-	19,991	-	-	29,742
General government	51,950	-	2,628	-	-	-	54,578
Debt service	-	-	-	-	65,763	-	65,763
Capital Projects	-	-	-	-	-	1,893	1,893
Total disbursements	<u>310,986</u>	<u>82,026</u>	<u>29,409</u>	<u>19,991</u>	<u>65,763</u>	<u>5,010</u>	<u>513,185</u>
Excess (deficiency) of receipts over disbursements	<u>(70,013)</u>	<u>6,088</u>	<u>6,538</u>	<u>64,751</u>	<u>(24,456)</u>	<u>57,065</u>	<u>39,973</u>
Other financing sources (uses):							
Operating transfers out	-	-	-	(175,008)	-	-	(175,008)
Operating transfers in	-	-	-	-	25,008	397,210	422,218
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(175,008)</u>	<u>25,008</u>	<u>397,210</u>	<u>247,210</u>
Net change in cash balances	(70,013)	6,088	6,538	(110,257)	552	454,275	287,183
Cash balances beginning of year	274,133	63,196	54,032	236,212	14,032	(368,816)	272,789
Cash balances end of year	<u>\$ 204,120</u>	<u>\$ 69,284</u>	<u>\$ 60,570</u>	<u>\$ 125,955</u>	<u>\$ 14,584</u>	<u>\$ 85,459</u>	<u>\$ 559,972</u>
Cash Basis Fund Balances							
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ 14,584	\$ -	\$ 14,584
Unreserved:							
General fund	204,120	-	-	-	-	-	204,120
Special revenue funds	-	69,284	60,570	125,955	-	85,459	341,268
Total cash basis fund balances	<u>\$ 204,120</u>	<u>\$ 69,284</u>	<u>\$ 60,570</u>	<u>\$ 125,955</u>	<u>\$ 14,584</u>	<u>\$ 85,459</u>	<u>\$ 559,972</u>

See notes to financial statements.

CITY OF AURELIA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit C

	Enterprise				
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	Non-major <u>Storm Sewer</u>	<u>Total</u>
Operating Receipts:					
Charges for service	\$ 122,138	\$ 107,881	\$ 70,738	\$ 5,610	\$ 306,367
Miscellaneous	684	-	720	2,000	3,404
Total operating receipts	<u>122,822</u>	<u>107,881</u>	<u>71,458</u>	<u>7,610</u>	<u>309,771</u>
Operating Disbursements:					
Business type activities	<u>79,995</u>	<u>60,162</u>	<u>71,089</u>	<u>6,501</u>	<u>217,747</u>
Total operating disbursements	<u>79,995</u>	<u>60,162</u>	<u>71,089</u>	<u>6,501</u>	<u>217,747</u>
Excess of operating receipts over operating disbursements	<u>42,827</u>	<u>47,719</u>	<u>369</u>	<u>1,109</u>	<u>92,024</u>
Non-operating receipts (disbursements):					
Interest on investments	11,277	7,618	663	-	19,558
Debt service	<u>(20,734)</u>	<u>(51,944)</u>	<u>-</u>	<u>-</u>	<u>(72,678)</u>
Net non-operating receipts (disbursements)	<u>(9,457)</u>	<u>(44,326)</u>	<u>663</u>	<u>-</u>	<u>(53,120)</u>
Excess of receipts over disbursements	33,370	3,393	1,032	1,109	38,904
Operating transfers out	<u>(247,210)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(247,210)</u>
Net change in cash balances	(213,840)	3,393	1,032	1,109	(208,306)
Cash balances beginning of year	<u>455,882</u>	<u>292,662</u>	<u>26,507</u>	<u>9,900</u>	<u>784,951</u>
Cash balances end of year	<u>\$ 242,042</u>	<u>\$ 296,055</u>	<u>\$ 27,539</u>	<u>\$ 11,009</u>	<u>\$ 576,645</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ 25,003	\$ 64,502	\$ -	\$ -	\$ 89,505
Unreserved	<u>217,039</u>	<u>231,553</u>	<u>27,539</u>	<u>11,009</u>	<u>487,140</u>
Total cash basis fund balances	<u>\$ 242,042</u>	<u>\$ 296,055</u>	<u>\$ 27,539</u>	<u>\$ 11,009</u>	<u>\$ 576,645</u>

See notes to financial statements.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Aurelia is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, City of Aurelia has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City.

These financial statements present the City of Aurelia (the primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Aurelia Municipal Electric Utility was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on, the City. The Utility is governed by a five member board appointed by the Mayor and approved by the City Council. The Utility's operating budget is subject to the approval of the City Council. Complete financial statements of the individual component unit, which will issue separate financial statements, can be obtained from the Utility administrative office.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to Cherokee County Assessor's Conference Board, Cherokee County E911 Board, and Cherokee County Solid Waste Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the main operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

The Local Option Sales Tax Fund is used to account for community betterment projects financed by those funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Sanitation Fund accounts for the operation and maintenance of the City's waste management system.

C. Measurement Focus and Basis of Accounting

The City of Aurelia maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the culture and recreation function.

2. CASH

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 40.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, and revenue bonds and notes are as follows:

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Revenue Bonds and Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 50,000	\$ 13,063	\$ 46,966	\$ 21,308	\$ 96,966	\$ 34,371
2011	50,000	10,738	49,579	19,646	99,579	30,384
2012	55,000	8,363	51,222	17,892	106,222	26,255
2013	55,000	5,695	53,899	16,076	108,899	21,771
2014	60,000	3,000	55,610	14,164	115,610	17,164
2015-2020	-	-	332,096	40,598	332,096	40,598
	<u>\$ 270,000</u>	<u>\$ 40,859</u>	<u>\$ 589,372</u>	<u>\$ 129,684</u>	<u>\$ 859,372</u>	<u>\$ 170,543</u>

Revenue Bonds and Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$349,700 in water revenue capital loan bonds issued in July, 1980. Proceeds from the bonds provided financing for construction of improvements and extensions to the water system. The bonds are payable solely from water customer net receipts and are payable through 2020. The total principal and interest remaining to be paid on the notes is \$228,425. For the current year, principal and interest paid and total customer net receipts were \$20,734 and \$42,827 respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$695,000 and \$205,000 in sewer revenue notes issued in February, 1999. Proceeds from the notes provided financing for construction of certain wastewater treatment facilities. The notes are payable solely from sewer customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$490,630. For the current year, principal and interest paid and total customer net receipts were \$51,718 and \$47,719 respectively.

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions:

- a. The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. The City shall make annual water bond payments of \$20,734, including interest at 5% per year, to the bondholder in years 1984 through 2020, inclusive.
- c. Sufficient monthly transfers shall be made to separate water and sewer revenue sinking funds for the purpose of making the principal and interest payments when due.
- d. Water and sewer revenue reserve funds will be maintained and consist of funds in an amount equal to at least the maximum amount of principal and interest coming due on the bond and notes in any succeeding fiscal year.

The City has established the sinking accounts required by the water and sewer obligations.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

4. CAPITAL LEASE PURCHASE AGREEMENTS

The City has entered into a capital lease purchase agreement to lease a Johnston street sweeper. The following is a schedule of the future minimum lease payments, including interest at 4.05% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2009:

Year Ending June 30, 2010	Johnston Street Sweeper \$ 15,438 (601) <u>\$ 14,837</u>
Less amount representing interest	
Present value of net minimum lease payments	

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2009, were \$10,607, equal to the required contributions for the year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 6,281</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

7. SOLID WASTE DISPOSAL AGREEMENT

The City entered into an agreement with the Cherokee County Solid Waste Commission, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste from within the City. For the year ended June 30, 2009, \$23,777 was paid pursuant to the agreement.

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The total costs to the Commission have been estimated at \$2,411,851 as of June 30, 2008, the most recent audit report released, and the portion of the liability that has been recognized is \$1,208,685. The Commission has begun to accumulate resources to fund the closure costs, and at June 30, 2008 deposits of \$304,166 are held for these purposes. The estimated remaining life of the landfill is 76 years.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. SOLID WASTE DISPOSAL AGREEMENT – (Continued)

Since the estimated closure and postclosure care costs are not fully funded, the Commission is required to demonstrate financial assurance of the unfunded costs. The Commission has adopted the dedicated fund mechanism. The Commission obtained a local government guaranty from Cherokee County on June 10, 1997 for the purpose of financing the postclosure costs of the landfill.

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt service	Special Revenue:	
	Local-Option Sales Tax	\$ 25,008
Capital Projects	Local Option Sales Tax	150,000
	Enterprise:	
	Water	<u>247,210</u>
		<u>\$ 422,218</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9. SERVICE AGREEMENTS

The City has an agreement with Sanitation Services for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$45,600 for the year ended June 30, 2009.

10. RISK MANAGEMENT

City of Aurelia is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. HOSPITAL FACILITY REVENUE BONDS

The City has issued a total of \$7,100,000 of hospital facility revenue bonds for Sioux Valley Memorial Hospital under the provisions of Chapter 419 of the Code of Iowa of which \$4,461,180 is outstanding at June 30, 2009. The bonds and related interest are payable solely from the revenue of the hospital and the bond principal and interest do not constitute liabilities of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AURELIA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>	Budgeted Amounts Original and Final	Final to Net Variance
Receipts:					
Property tax	\$ 233,266	\$ -	\$ 233,266	\$ 230,444	\$ 2,822
Other city tax	86,180	-	86,180	76,438	9,742
Licenses and permits	1,630	-	1,630	2,850	(1,220)
Use of money and property	45,017	19,558	64,575	59,695	4,880
Intergovernmental	109,019	-	109,019	109,600	(581)
Charges for service	7,122	306,367	313,489	315,700	(2,211)
Special assessments	1,096	-	1,096	3,000	(1,904)
Miscellaneous	69,828	3,404	73,232	80,900	(7,668)
Total receipts	<u>553,158</u>	<u>329,329</u>	<u>882,487</u>	<u>878,627</u>	<u>3,860</u>
Disbursements:					
Public safety	87,292	-	87,292	88,770	1,478
Public works	110,928	-	110,928	114,800	3,872
Culture and recreation	162,989	-	162,989	139,244	(23,745)
Community and economic development	29,742	-	29,742	32,000	2,258
General government	54,578	-	54,578	65,900	11,322
Debt service	65,763	-	65,763	65,763	-
Capital projects	1,893	-	1,893	63,000	61,107
Business type activities	-	290,425	290,425	359,652	69,227
Total disbursements	<u>513,185</u>	<u>290,425</u>	<u>803,610</u>	<u>929,129</u>	<u>125,519</u>
Excess (deficiency) of receipts over disbursements	39,973	38,904	78,877	(50,502)	129,379
Other financing sources (uses), net	<u>247,210</u>	<u>(247,210)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>287,183</u>	<u>(208,306)</u>	<u>78,877</u>	<u>(50,502)</u>	<u>129,379</u>
Balances, beginning of year	<u>272,789</u>	<u>784,951</u>	<u>1,057,740</u>	<u>1,415,415</u>	<u>(357,675)</u>
Balances, end of year	<u>\$ 559,972</u>	<u>\$ 576,645</u>	<u>\$ 1,136,617</u>	<u>\$1,364,913</u>	<u>\$ (228,296)</u>

See accompanying independent auditor's report.

CITY OF AURELIA
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2009 the budget was not amended.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the culture and recreation function.

SUPPLEMENTARY INFORMATION

CITY OF AURELIA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Schedule 1

	<u>Special Revenue</u>		
	<u>Library</u>	<u>Capital</u>	
	<u>Expendable</u>	<u>Projects</u>	<u>Total</u>
	<u>Trust</u>		
Receipts:			
Property tax	\$ -	\$ -	\$ -
Other city tax	-	-	-
Use of money and property	1,948	280	2,228
Miscellaneous	26,650	33,197	59,847
Total receipts	28,598	33,477	62,075
Disbursements:			
Operating:			
Public safety	324	-	324
Public works	-	-	-
Culture and recreation	2,793	-	2,793
General government	-	-	-
Capital Projects	-	1,893	1,893
Total disbursements	3,117	1,893	5,010
Excess of receipts over disbursements	25,481	31,584	57,065
Other financing sources (uses):			
Operating transfers in	-	397,210	397,210
Net change in cash balances	25,481	428,794	454,275
Cash balances beginning of year	18,986	(387,802)	(368,816)
Cash balances end of year	\$ 44,467	\$ 40,992	\$ 85,459
Cash Basis Fund Balances			
Unreserved	\$ 44,467	\$ 40,992	\$ 85,459

See accompanying independent auditor's report.

CITY OF AURELIA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2009

Schedule 2

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
Sewer improvement	April 1, 1999	4.60%-5.00%	<u>\$ 665,000</u>	<u>\$ 320,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 270,000</u>	<u>\$ 15,363</u>	<u>\$ -</u>
Revenue bond:									
Water	July 24, 1980	5.00%	<u>\$ 349,700</u>	<u>\$ 182,997</u>	<u>\$ -</u>	<u>\$ 11,625</u>	<u>\$ 171,372</u>	<u>\$ 9,109</u>	<u>\$ -</u>
Revenue notes:									
Sewer	February 16, 1999	3.92%	<u>\$ 695,000</u>	<u>\$ 320,000</u>	<u>\$ -</u>	<u>\$ 24,000</u>	<u>\$ 296,000</u>	<u>\$ 12,544</u>	<u>\$ -</u>
Sewer	February 16, 1999	3.92%	<u>205,000</u>	<u>132,000</u>	<u>-</u>	<u>10,000</u>	<u>122,000</u>	<u>5,174</u>	<u>-</u>
			<u>\$ 900,000</u>	<u>\$ 452,000</u>	<u>\$ -</u>	<u>\$ 34,000</u>	<u>\$ 418,000</u>	<u>\$ 17,718</u>	<u>\$ -</u>
Capital leases:									
Johnston street sweeper	October 15, 2002	4.05%	<u>\$ 92,489</u>	<u>\$ 29,097</u>	<u>\$ -</u>	<u>\$ 14,260</u>	<u>\$ 14,837</u>	<u>\$ 1,178</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF AURELIA
BOND AND NOTE MATURITIES
JUNE 30, 2009

Schedule 3

<u>General Obligation Bonds</u> Sewer Improvement Issued April 1, 1999			<u>Revenue Notes</u>					
			<u>Sewer Improvement</u> \$695,000 Issued February 16, 1999			<u>Sewer Improvement</u> \$205,000 Issued February 16, 1999		
Year Ending June 30,	Interest Rates	Amount	Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total
2010	4.65%	\$ 50,000	2010	3.92%	\$ 25,000	3.92%	\$ 10,000	\$ 35,000
2011	4.75	50,000	2011	3.92	26,000	3.92	11,000	37,000
2012	4.85	55,000	2012	3.92	27,000	3.92	11,000	38,000
2013	4.90	55,000	2013	3.92	28,000	3.92	12,000	40,000
2014	5.00	60,000	2014	3.92	29,000	3.92	12,000	41,000
			2015	3.92	30,000	3.92	12,000	42,000
			2016	3.92	31,000	3.92	13,000	44,000
			2017	3.92	32,000	3.92	13,000	45,000
			2018	3.92	33,000	3.92	14,000	47,000
			2019	3.92	35,000	3.92	14,000	49,000
		<u>\$ 270,000</u>						
					<u>\$ 296,000</u>		<u>\$ 122,000</u>	<u>\$ 418,000</u>

<u>Water Revenue Bond</u> Issued July 24, 1980	
Interest Rate	Amount
5.00%	\$171,372
	Payments, including interest, are \$20,734 due each July 1 until July 1, 2020

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Aurelia, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Aurelia, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basis financial statements listed in the table of contents, and have issued our report thereon dated February 15, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with US generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Aurelia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Aurelia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Aurelia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Aurelia's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Aurelia's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe all items are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Aurelia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Aurelia's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit City of Aurelia's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Aurelia, and other parties to whom City of Aurelia may report. This report is not intended to be and should not be used by anyone other than these specified parties.

February 15, 2010

Hungelman, Putzier & Co.

CITY OF AURELIA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Significant Deficiencies:

- I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Office staff continually cross-train and review procedures. The City Council closely monitors operating procedures to obtain the maximum internal control possible.

Conclusion - Response accepted.

- I-B-09 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weakness in the City's computer based systems was noted:

The City does not have a written policy for:

- Ensuring that only software licensed to the City is installed on computers.

Recommendation - The City should develop a written policy addressing the above item in order to improve the City's control over computer based systems.

Response - The City Clerk is in the process of preparing policies to ensure software installed is monitored and licensed to the City, and to address personal use of computer equipment.

Conclusion - Response accepted.

CITY OF AURELIA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements: (continued)

Significant Deficiencies (continued):

- I-C-09 Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The City Clerk will continue to attend professional education courses which significantly improve the ability to prepare and take responsibility for reliable OCBOA financial statements.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

- II-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City Clerk closely monitors the balances in the functions, and will amend in sufficient time in accordance with Chapter 384.18 of the Code of Iowa.

Conclusion – Response accepted.

- II-B-09 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-09 Business Transactions – We noted no business transactions between the City and City officials or employees.

- II-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF AURELIA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, The City entered into two closed sessions under Chapter 21.5(i) of the Code of Iowa to discuss personnel issues but the individuals did not request that the session be closed.

Recommendation – The City should follow proper procedure when entering into closed session.

Response – The City will follow proper procedures when entering into closed sessions pursuant to Chapter 21.5(i) of the Code of Iowa.

Conclusion – Response accepted.

- II-G-09 Revenue Notes - The City has established the sinking and reserve funds required by the water and sewer revenue note resolutions.

- II-H-09 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

- II-I-09 Excess Balances - The following funds have balances at June 30, 2009 in excess of one year's expenditures:

Special Revenue - Employee Benefits
 - Library Expendable Trust
Capital Projects

Recommendation - While it appears that these funds may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – The City Council strives to maintain a close review of balances in the named funds. The City did lower the amount levied for employee benefits, and the expendable trust is being used for library expenses from donations. Local option sales tax is used for community betterment.

Conclusion – Response accepted.

- II-J-09 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The City has been receiving cancelled checks in an electronic format, and since August of 2009, the checks do include an image of both the front and back of each cancelled check pursuant to Chapter 554D.114 of the Code of Iowa.

Conclusion – Response accepted.